

Uva Wellassa University
Faculty of Management



Degree of Bachelor of Business Management in Entrepreneurship and Management
SECOND YEAR SECOND SEMESTER EXAMINATION - AUGUST/SEPTEMBER 2011
EMG 212 -3 Advanced Financial Accounting

Instructions to candidates:

No. of pages : Nine (09)
No. of questions : Five (05) Structured Essay
 : Three (03) Essay
Time allocation : Two (02) Hours and Thirty (30) Minutes
Marks allocated : 80 Marks
Question paper is not to be removed from examination hall.

Index Number:



Part C – Essay Questions

Answer **only two (02)** questions from Part C **including question no. 01**

Show all workings very clearly. Any assumptions should clearly be stated.

Marks allocation: 50 Marks

01) The summarised Balance sheets of A PLC, B PLC, and C PLC as at 31.03.2011 are as follows:

	A PLC Rs.'000	B PLC Rs.'000	C PLC Rs.'000
Non-Current Assets			
Property Plant and Equipment	42,000	34000	18400
Investment in B PLC	30,500	-	-
Investment in C PLC	18,500		
Current Assets			
Inventory	10,900	7,500	9000
Debtors	8700	4000	3000
Cash at Bank	7200	1700	3000
Total Assets	117,800	47200	33400
Share Capital and Reserves			
Stated Capital	75000	35000	25000
Revaluation Reserve	20,000	1000	3000
Retained Profit	17500	9800	4200
	112500	45800	32200
Current Liabilities	5300	1400	1200
Total Capital and Liabilities	117800	47200	33400

The following information is also available

i. Information relating to the investments of A PLC:

Date of acquisition	Details of investment	Amount Paid (Rs.)	Retained profit (Rs.)
1.4.2010	1,875,000 ordinary shares and 100,000 10% preference shares of B PLC	30,500,000	16,500,000
1.4.2010	1,000,000 ordinary shares of C PLC	18,500,000	1,600,000

- ii. The revaluation reserve of B PLC and C PLC as at 1.4.2010 were Rs.2,000,000 and Rs.3,000,000 respectively. The fixed asset of B PLC have been revalued as at 31.03.2011
- iii. In June 2010, B PLC has paid an ordinary dividend of 20% out of its pre-acquisition profits. A PLC has credited the dividend received to its profit and loss account.
- iv. A PLC has supplied goods to B PLC on credit term. The stock of B PLC as at 31.03.2011 includes Rs.1,200,000 (invoiced values) of stock supplied by A PLC at cost plus 25%. All inter company profits are treated as fully unrealised for consolidation purpose.
- v. There is an outstanding balance of Rs.400,000 payable by B PLC in respect of stocks supplied by A PLC as at 31.03.2011
- vi. The stated capital of B PLC comprises of
- | | |
|---|------------|
| Ordinary share capital (2,500,000 shares) | 25,000,000 |
| 10% Preference share capital (1,000,000) | 10,000,000 |
- vii. The stated capital of C PLC comprises of 2,500,000 ordinary shares.

You are required to;

- a) Compute the goodwill arising on acquisition (4 marks)
- b) Calculate the non-controlling (minority) interest (4 marks)
- c) Prepare investment in associate Account (4 marks)
- d) Calculate the consolidated revenue reserve (4 marks)
- e) Prepare the consolidated Balance sheet as at 31.03.2011 (14 marks)

(Total – 30 Marks)

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(Rs.)
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(02)

- a) At the year-end stock taking on 31.03.2010 ABC Company Ltd. Identified that 85,000 units of an item X in stock were obsolete. The cost as per the books of the company was Rs.9 per unit. The company could make use of this stock elsewhere in another product, 2 units of material X as a substitute for 1 unit of raw materials Y which cost the company Rs.4 per unit. Calculate the stock value that should be recorded in the Company's books.

You are required to:

State your answer giving reference to relevant account standard.

(5 marks)

- b) Premium Medicine PLC took a license for production of a foreign medicine from Medigain PLC on a royalty payment at the rate of Rs.20 per bottle sold. Minimum royalty payable by Premium Medicine PLC was fixed at Rs.100,000 per annum with a right to recoup short workings in the following year.

Premium Medicine PLC issued a sub-license to Medicare PLC on the basis of a royalty payment of Rs.25 per bottle produced. Minimum royalty payable by Medicare PLC was fixed at Rs.50,000 per annum with a right to recoup short workings in the following two years.

Following details are extracted from the books of Premium PLC.

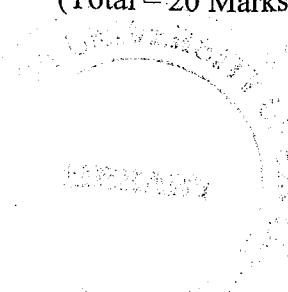
Year	Premium Medicine PLC		Medicare PLC	
	Production	Closing Stock	Sales	Closing Stock
1 st year	4500	500	1400	200
2 nd year	3000	300	1500	600
3 rd year	3400	200	1700	900
4 th year	4600	800	2000	700
5 th year	3900	500	1800	1100

You are required to:

Prepare necessary accounts in the books of Premium Medicine PLC from the details given above.

(15 marks)

(Total – 20 Marks)



03)

a) Briefly describe the difference between a Right issue and a Bonus issue

(2 marks)

b) ABC PLC invited applications for 500,000 shares at Rs.36 each, payable as follows.

On application	-	Rs.12
On allotment	-	Rs.14
On first call	-	<u>Rs.10</u>
Total	-	<u>Rs.36</u>

The company's article set out the following criteria on allotment of shares.

1. Reject the applications which received for less than 100 shares
2. Make full allotment to the applicants who applies more than 100 but less than 1000 shares (100-1000)
3. The applications for 1000-5000 shares allot in the ratio of 5:3 and to refund the excess money received.
4. The applications for more than 5000 shares allot in a pro-rata basis.

At the closing date of the subscription list, the company has received applications for 725,400 shares and has categorized as follows.

Range of Shares	Number of Shares applied
Less than 100	12,600 shares
100 - 1,000	130,800 shares
1,000 - 5,000	282,000 shares
Greater than 5,000	300,000 shares

The allotment is done properly and the excess money sent back to the relevant applicants properly.

All the shareholders paid the allotment money without default except;

- Mr. X who applied for 4,500 shares
- Mr. Y who applied for 16,200 shares



Without considering the default on allotment money the company call for the first call money and all the shareholders except Mr.X ,Mr.Y and Mr.A who applied for 6,000 shares paid first call money duly.

Even after the giving notice in writing to the default shareholders, they fail to pay the amounts due. Therefore the company decided to forfeit the default shares as per the articles and to reissue at Rs.30 each.

You are required to:

Show the necessary journal entries to;

- i. Record the issue of shares;
- ii. Forfeiture of default shares;
- iii. Reissue of those shares;

(18 marks)

(Total – 20 Marks)

